

Initiation of Coverage

Initiating Coverage of Cerro Resources (Mexico Gold & Silver) with a Buy Rating

Company Overview

Primary Asset: Cerro Del Gallo project, Mexico
Start-up Capex: \$120mn heap leach, 2014E startup
Primary Metal: Gold
Reserves and Resources: 1.7mmoz Au at 0.67g/t
LOM Avg. Gold Production (primary): 82koz Au
LOM Avg. Total Cash Costs (co-product): \$640/oz Au
LOM Avg. Silver Production (secondary): 0.9mmoz Ag
Status: Development, updated FS due 1Q12
Cerro Resources NAV8%: C\$536mn (or \$0.36/share)
Insider Ownership & Trading Activity: 13%, Neutral

We are initiating coverage of Cerro Resources with a Buy rating in the higher risk, potentially higher reward junior mining sector, and a C\$0.30 target price. As is typical of Australian companies, the share count is high relative to North American companies (794.6mn fully diluted shares), leading to a low share price (C\$0.09) on the market cap of approximately \$69mn.

Valuation: Our sum-of-the-parts net asset value for the flagship Cerro Del Gallo (8%-NAV) and Namiquipa (10%-NAV) assets in Mexico is C\$536mn, or \$0.36/share (based on approximately 1.5bn fully diluted, fully financed shares). Cerro Resources currently trades at 0.30x P/NAV at spot gold prices, versus peer average of 0.61x.

Cerro Del Gallo (CDG) Deposit – Strong Foundation: CDG was a divestiture by Goldcorp, which retains a 34% stake in the project that may be ultimately converted into a 10% NPI (Net Profit Interest) if Goldcorp chooses not to participate in funding CDG. The CDG deposit has a 43-101 resource of 77mmt at 0.67 g/t gold and 14.2 g/t silver.

A Feasibility Study (FS) is due in 1Q12. We model total project capex of \$225mn (comprising \$120mn for heap leach 2014E startup, and \$105mn for CIL plant 2019E startup) with annual LOM production of 82koz Au and 0.9mmoz Ag (approximately 100koz AuEq) at total cash costs (co-product, excluding depreciation) of \$640/oz over 14 years. The first four years should average 66koz at \$507/oz pa. We note that the by-product silver may be a source of funding to offset some of the initial capex requirements for the heap leach.

Changes	Previous	Current
Rating		Buy
Target Price		C\$0.30
Price (12/19/11):		C\$0.09
52-Week Range:		C\$0.37 – C\$0.09
Market Cap.(mm):		71.5
Shr.O/S-Diluted (mm):		794.6
Enterprise Val. (mm):		C\$53.8
Avg Daily Vol (3 Mo):		15,017
NAVPS:		C\$0.36
Cash (mm):		A\$15
Working Capital (mm):		A\$19
Price/NAV:		0.3x
S&P/TSX Composite Index:		11,539.70
Dividend(C\$ / %)		C\$0.00

P/NAV is at target setting gold price of \$1,600/oz

Cash balances are as of September 30, 2011

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Namiquipa (Nami) Deposit – Adds Exploration Excitement: Nami is a silver, lead, and zinc (Ag-Pb-Zn) vein deposit with multiple veins already established. Exploration, which has been returning positive results to date including 18 holes averaging 133g/t (4.3oz) Ag released to mid-November, will likely continue to have a high degree of success through 2012. We expect an initial resource to be delineated by 2012 year-end, with feasibility work commencing thereafter. Our rough conceptual model assumes a LOM resource of 5mmt at 140g/t Ag, allowing for dilution. We model a \$100mm mine with annual production of 1.2mmoz Ag, 3.8mmlb Pb, and 7.8mmlb Zn at a total cash costs (co-product, excluding depreciation) of \$25.56/oz Ag over 15 years starting in 2015. On a by-product basis, total cash costs would be approximately \$22/oz Ag. As higher grade veins would be priority, the first three years may average 1.46mmoz Ag at a cash cost of \$22.20/oz (co-product).

Strong Exploration Potential: Exploration activity in the CDG region is highly prospective, and there is a strong likelihood that additional resources would be found to meet the lower economic hurdle provided with the construction of the CDG mill. At Nami, a steady flow of positive drill results is likely to continue as the geologists march along the known vein structures, in our opinion.

Non Core Asset Sale Could Get the Market's Attention: The non-core Mt Philip iron ore deposit in Australia may be put up for sale post a 1Q12 resource update. We have assumed it is worth C\$30-40mn (or \$0.02/share), or about 45% of the current market cap. Our valuation of approximately \$3 per contained tonne of ore in resource appears reasonable after a review of historical transactions. If accomplished, such a sale should garner the market's attention and partially offset CDG construction costs, but we have conservatively not included it in cash flow.

BACKGROUND

Cerro Resources (“Cerro” or “the Company”) is an Australian-based gold/silver and metals development and exploration company. The shares are listed on the Toronto Stock Exchange (TSX) and Australian Stock Exchange (ASX) and trade under the symbol CJO with the latter exchange being the dominant host market (approximately 790K shares 30-day average volume). Two large Australian brokerages cover the stock.

Cerro’s primary asset is the San Anton gold/silver project (which hosts the Cerro Del Gallo deposit) located in the central state of Guanajuato, Mexico. Other assets include: the Namiquipa deposit in northern Mexico, an early stage but highly promising silver-lead-zinc deposit currently being explored; Espiritu Santo, a recently acquired bulk tonnage target; and the non-core Mt Phillip iron ore deposit in Australia.

PROJECTS

We visited both Cerro Del Gallo (CDG) and Namiquipa (Nami) in November 2011. The infrastructure at both sites is excellent.

Figure 1: Location Map (MEXICO)



Source: Company reports

CERRO DEL GALLO Gold And Silver Deposit - MEXICO

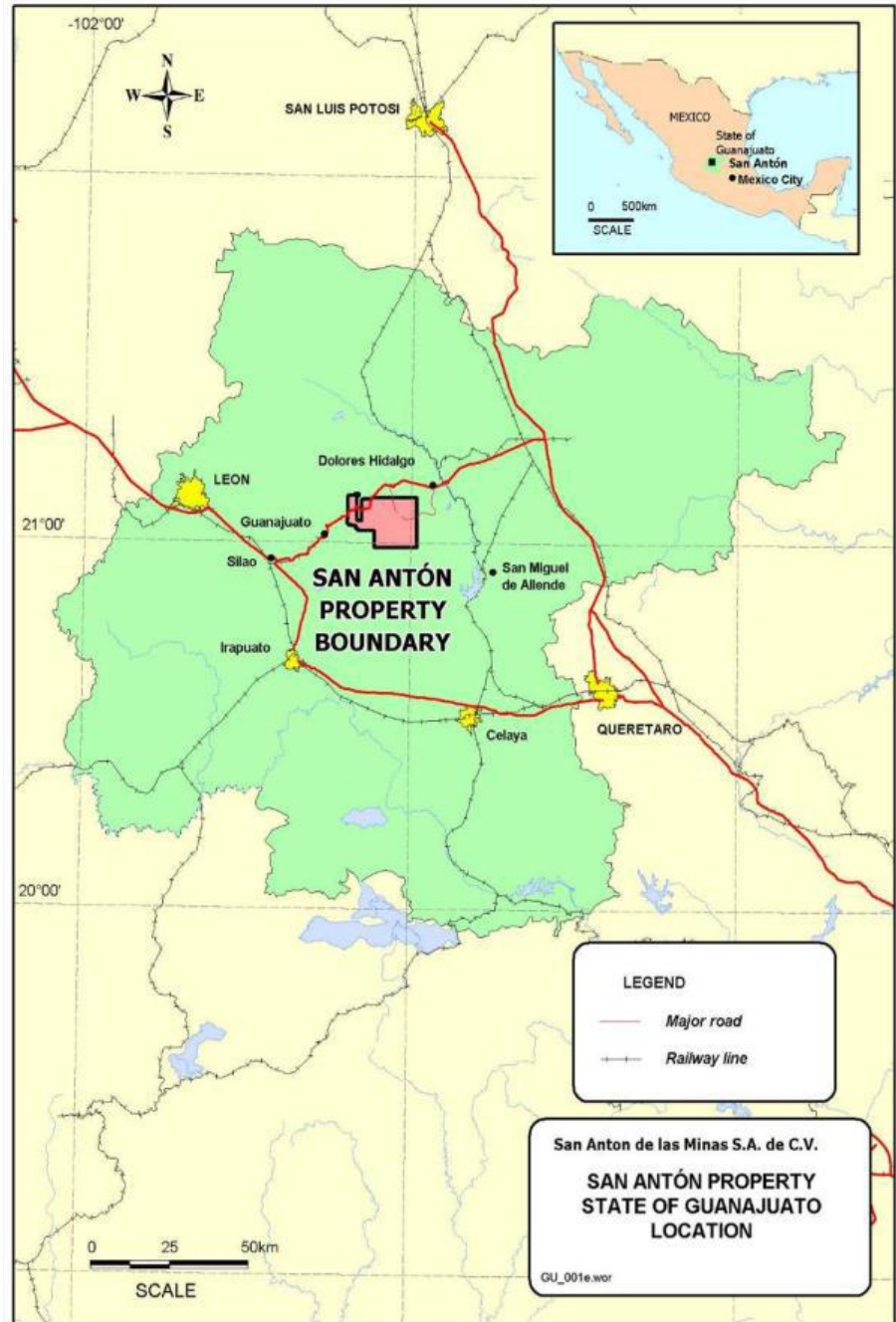
The property is located in the state of Guanajuato in central Mexico, approximately 270 km northwest of Mexico City and 20 km northeast of Guanajuato City. Goldcorp currently owns 34% having elected to be diluted in the past. The initial agreement in 2004 had Cerro earning a 51% stake by investing US\$3.5mn.

The entitlement to that interest was earned as of 1 November 2005. Goldcorp elected not to participate in the 2007 budget, which diluted its ownership down to the current 34%. There are no claw-back provisions and Cerro retains the right of first refusal (ROFR).

We expect this project to be too small for Goldcorp and, therefore, post the 1Q12 feasibility study (i.e., within 90 days but likely sooner), believe Goldcorp will likely elect to dilute further to a 10% NPI and, quite possibly, sell its interest outright. Since CJO became involved (2005), US\$34mn has been spent on CDG by the joint venture. CJO will need to spend a further US\$90mn (approximately) to dilute

Goldcorp's share to 10% NPI (i.e., if Goldcorp elects not to co-fund the heap leach operation.

Figure 2: Cerro Del Gallo



Source: Company reports, reprinted with permission

At CDG, there are several styles of mineralization (epithermal veins, porphyry, etc.) related to an intrusive heat source. The deposit is a porphyry with a gold mineralized intrusive and is surrounded by several epithermal vein systems. The existing 43-101 resource is shown in **Figure 3** below:

Figure 3: CDG Resource Statement

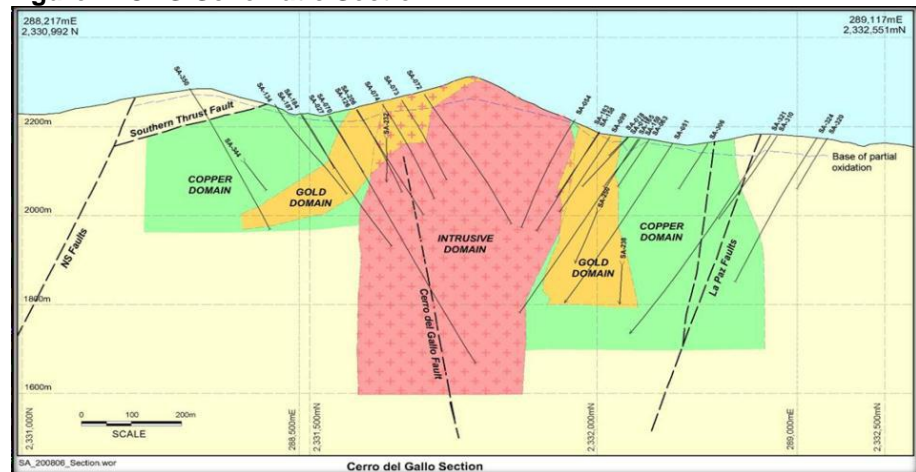
CDG Resource Statement (March 2011)					
	Tonnes (mm)	Au (g/t)	Ag (g/t)	Au (koz)	Ag (koz)
Proven	28.2	0.71	15.05	643	13,664
Proven	4.0	0.54	13.2	69	1,685
Proven & Probable	32.2	0.69	14.82	712	15,349
Measured	39.9	0.66	14.32	850	18,358
Indicated	5.1	0.61	10.07	100	1,659
M&I	45.0	0.66	13.83	951	20,017
Total Resource	77.2	0.67	14.24	1,663	35,366

(1) M&I are exclusive of reserves (in-pit resources)

Source: Company reports

Based on the deep drilling to date, management does not see much in the way of potential below 350-400m at CDG. The mineralization is concentrated in large structural zones associated with the intrusion. Below 350-400m, the fracturing associated with these structures appears more restrictive for the disseminated and stock-work systems.

Figure 4: CDG Schematic Section



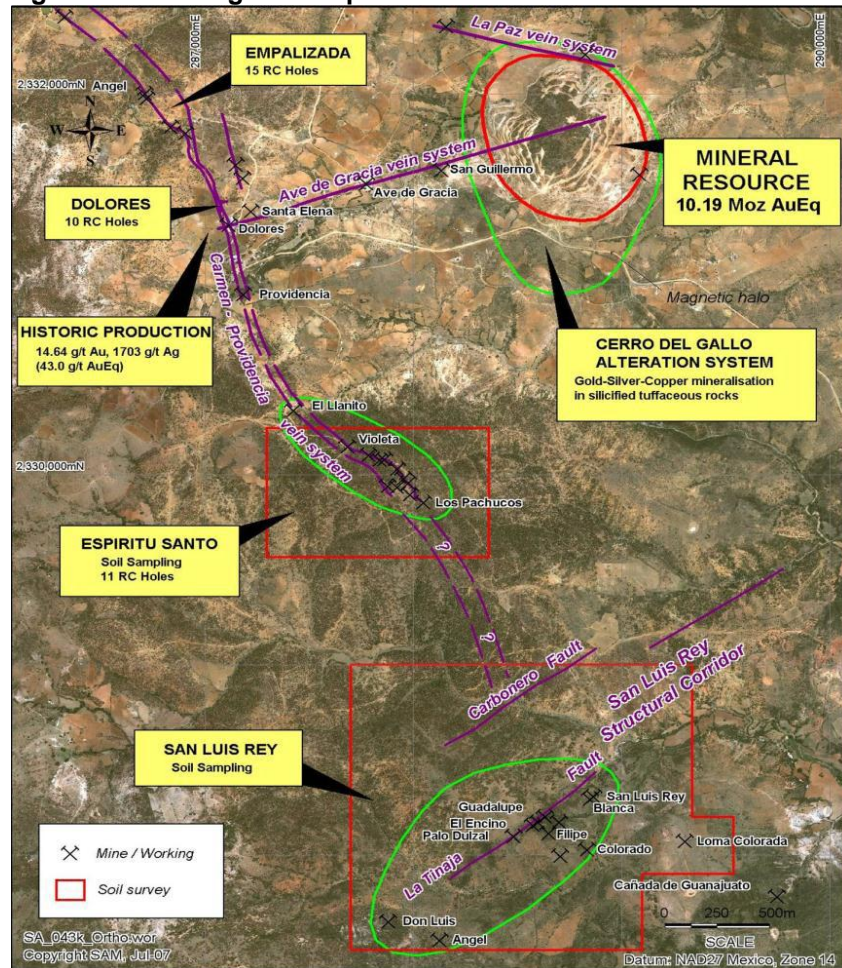
(1) The copper domain is low grade and is not planned to be recovered.

Source: Company reports, reprinted with permission

Drilling in the south hit lower grade gold mineralization, which is likely to be replicated in the north. Given the high grade will be targeted first to get payback, this mineralized material may end up as a low grade stockpile for treatment at the end of the mine life. The already low strip ratio could be lowered further as areas designated as waste blocks are potentially brought into the mineralized category with additional drilling. This is particularly true on the margins of the current pit model.

Regional exploration has been limited due to a focus on the primary target of the CDG porphyry gold project. We expect regional exploration drilling to start out of CDG surplus cash flows. The hurdles for regional exploration success are greatly reduced once the plant is built. There are multiple targets within a few kilometres of the proposed plant site. Targets are shown in Figure 5 below with the first targets likely to be Dolores, Empalizada, as well as Espiritu Santo.

Figure 5: CDG Regional Exploration



Source: Company reports, reprinted with permission

Updated Feasibility Study Due In 1Q12: The updated FS (from the FS in April 2011) is due out in 1Q12. This study will include the High Pressure Grinding Rolls (HPGR) and associated improved recoveries. Due to the recent fall in steel, copper, and other input prices, the initial capex for the heap leach operation is unlikely to change significantly from the original \$101mn estimate (comprising \$83mn budget plus \$18mn for mining fleet, possibly leased). However, as we expect this lull to be transitory, we have assumed \$120mn initial capex in total for the heap leach operation with a 2014E startup.

CDG Model Parameters

Our modeled CDG NAV8% valuation is C\$333mn. The parameters used in our model are as shown in **Figure 6**.

Figure 6: Cerro FS/PEA Parameters versus SN Assumptions**CDG - Cerro Resources Technical Study Versus SN Model Inputs**

		Cerro Del Gallo March 2011 Combined FS & PEA	Stifel Nicolaus Assumptions
Long-term Gold Price	US\$/oz	\$1,060	\$1,600
Long-term Silver Price	US\$/oz	\$18	\$38
Project		Cerro Del Gallo	Cerro Del Gallo
Country		Mexico	Mexico
Estimate Basis		Mar-11	4Q2011
Commercial Production Start Date			2014
Mineral Reserve & Resources	mmt	77.2	77.2
SN Modeled Reserves (incl. future additions)	mmt		89.2
Throughput - Heap leach	mmtpy	4.5	4.5
Throughput - Process Plant	mmtpy	3.0	3.0
Mine Production Life	years	14	14
Average LOM Gold Production (1)	koz	79	82
Average LOM Silver Production (1)	mmoz	0.7	0.9
Cost/t	US\$/t	\$9.18	\$9.61
Royalties	%	4%	4%
Total Cash Costs (2)	US\$/oz Au	\$517	\$640
Capex - Heap Leach	US\$mm	\$106	\$120
- Plant	US\$mm	\$83	\$105

1. SN estimates higher production due to higher recoveries and throughput assumptions (from low grade stockpiles)
2. Total cash costs are co-product and exclude depreciation.

Source: Company reports, Stifel Nicolaus estimates

At CDG, there is an effective 4% royalty owned by the local co-operative (2%) and two government entities (2%).

Surface rights to 40 privately owned properties are required, of which six were purchased in 2007. Approximately 20 families will have to be relocated and the process has just been started in earnest. While the timing of the relocations is difficult, generally moving families off deposits has not been a major problem in Mexico in the past, it is more a question of time and money. We have conservatively allowed \$3mn to complete this process in a timely manner. Management is hoping to conclude the buyout agreement in 1Q12; however, this looks aggressive to us and we are assuming mid-2012.

Water rights over 400ktpa of water have been secured. The remaining 800ktpa is not expected to be problematic from sub-surface sources.

CDG Mine Plan – Starts With Heap Leach: The mine plan calls for a heap leach startup (SN estimate 2014E startup) followed by a CIL plant (SN estimate 2019E startup) once the pit “daylights” fresh sulphide ore, probably in year five. The transition between oxides and sulphides is uneven due to fracturing to surface which will require careful monitoring during mining. Management is not planning for an owner-operated mine in order to save on startup capex but, depending on project financing (many banks require mobile fleet to act as loan security), may start with contractors and transition to owner-operated in three years or so.

Prior metallurgical testwork showed variability of gold recovery with coarser crush sizes (12-19mm). Crushing finer provided more consistent and higher recoveries but would have reduced throughput capacity. This problem was solved by the addition of the High Pressure Grinding Rolls (HPGR) for the fine crushing, improving both gold and silver recoveries, while maintaining planned throughput.

Process test-work, post the combined feasibility and preliminary analysis of April 2011, showed a \$5mn investment in HPGR to reduce the ore to the pad to 4.3mm diameter rather than the previous 6mm sizing, would materially increase

recoveries. The cost of the HPGR will mostly be offset by the removal of the two tertiary cone crushers from the circuit.

Figure 7: CDG HPGR Recoveries

CDG Recoveries (incl. October 2011 HPGR Results)				
	Study Recoveries	HPGR Test-Work Results	New Recoveries for DFS	Change
Weathered (heap leach)				
Gold Recovery	75%	73%	75%	unchanged
Silver Recovery	40%	59%	50%	+10%
Oxidised (heap leach)				
Gold Recovery	55%	65%	65%	+10%
Silver Recovery	30%	69%	50%	+20%
Fresh (CIL processing)				
Gold Recovery	78%	-	78%	unchanged
Silver Recovery	20%	-	20%	unchanged

Source: Company reports

While management has prudently used lower silver recoveries than those suggested, we have added our own 2% (absolute) safety factor. The HPGR also add throughput flexibility by taking much of the load off the ball mills, thereby reducing the risk that the ball mills would be a constraint, particularly at the already small grind sizes as planned. No pilot plant is planned as management is comfortable with the lab test-work. Two 6-meter column leach tests are underway to model the potential impact of compaction on leach kinetics.

Capex is redeemable at a rate of 10% per annum (straight line depreciation). Current mining tax rates are 30% (raised "temporarily" as of 2010 from 28%) and are set to decline to 29% in 2013 and then revert to 28% as of 2014 when we expect CDG operations to start. As tax rates are on the increase worldwide, we have used an effective tax rate of 30%.

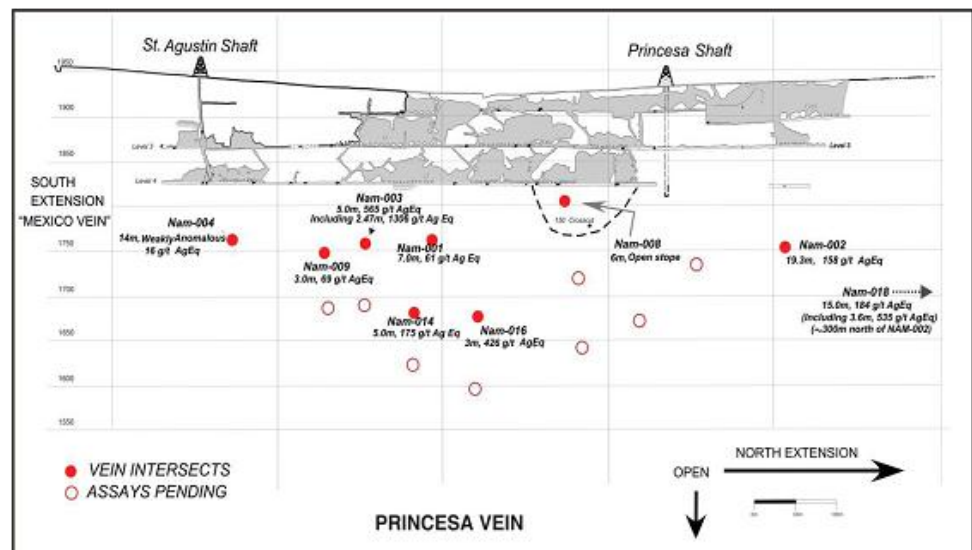
NAMIQUIPA (Nami) Silver-Lead-Zinc Deposit - MEXICO

Namiquipa is located 180km from the city of Chihuahua. Access is excellent with a paved road and telecoms tower at site, and water and power will likely be from the nearby town of El Terrero, only 3km away. It is particularly helpful that it is a previously disturbed site which hosted a small underground operation from the 1920s. Previous tailings are thought to carry grade and may be re-processed, though no sampling as yet confirmed this. A few land tenements are still required for the rock dump location but there is ample time to complete this task.

Mineralisation at Namiquipa was discovered in 1811. The deposit has been worked on-and-off up until 2002, when low metal prices and water ingress rendered the mine uneconomic. Mining took place over a 1,250m strike length down to depths of 250m. We understand the land/mine ownership was complicated, with multiple and diverse owners, which was why the property was still available this far into a bull market. This consolidation process was undertaken by Minera Tasmania, a private Mexican company that was owned 50% by Cerro's Non-Executive Chairman, Norm Seckold. Minera Tasmania then sold the property to Cerro Resources in a non-arms length transaction for 30mn shares with a notional value of \$4mn. A 2% NSR is payable to the original owner, Minera Rio Tinto SA de CV, in relation to production from the Americas Concession within the broader package of land; half of that royalty may be purchased for US\$1mn. An independent valuation of the property was undertaken by Australian consultants for the board. We have reviewed the independent report and believe the valuation derived was very low relative to the potential, subsequently demonstrated in the 2011 drilling.

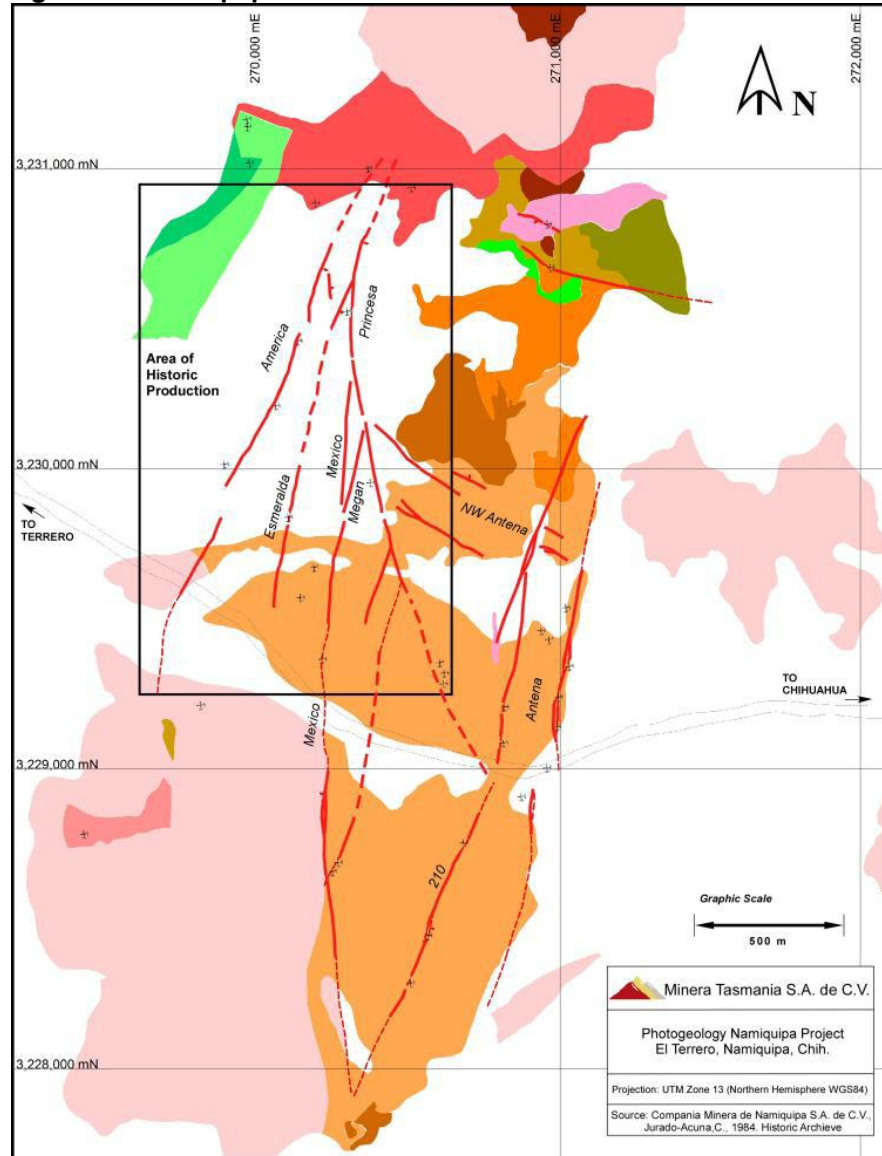
Nami is an epithermal (circulating hot water, driven by a remote heat source such as a magma intrusion, in this case carrying silver, lead, and zinc mineralization which was precipitated out in multiple vein structures) vein system. There are two principal veins, Princesa and America, with multiple sub-veins identified in a generally north trending, east dipping (at 68 degrees) vein system (see Figure 8). Ground magnetics have been useful in identifying likely areas for the veins over the 3km strike length. The extent of the down dip extensions of the main veins/mineralisation at Nami are still to be drilled.

Figure 8A: Namiquipa Section



Source: Company reports, reprinted with permission

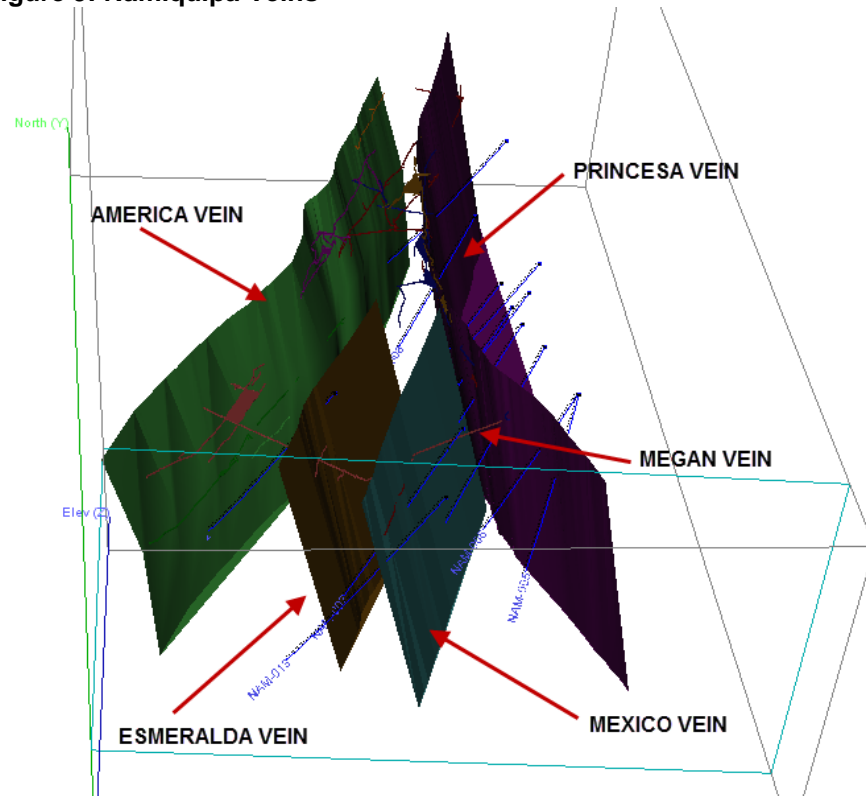
Figure 8B: Namiquipa Plan View



Source: Company reports, reprinted with permission

In the Namiquipa (Nami) technical report dated March 2011, the consultants noted that the old longitudinal sections suggested grades of 350g/t Ag over 2.1m (America) and 317g/t Ag over 0.5m (Princesa) were mined. We compiled an average of the 7 holes released for the Princesa and Megan veins which show an average grade of 155g/t Ag, 1.2% Pb and 2.2% Zn, somewhat less than the shallower mined out grades. See appendix for drill results summary and average grades for each zone.

Figure 9: Namiquipa Veins

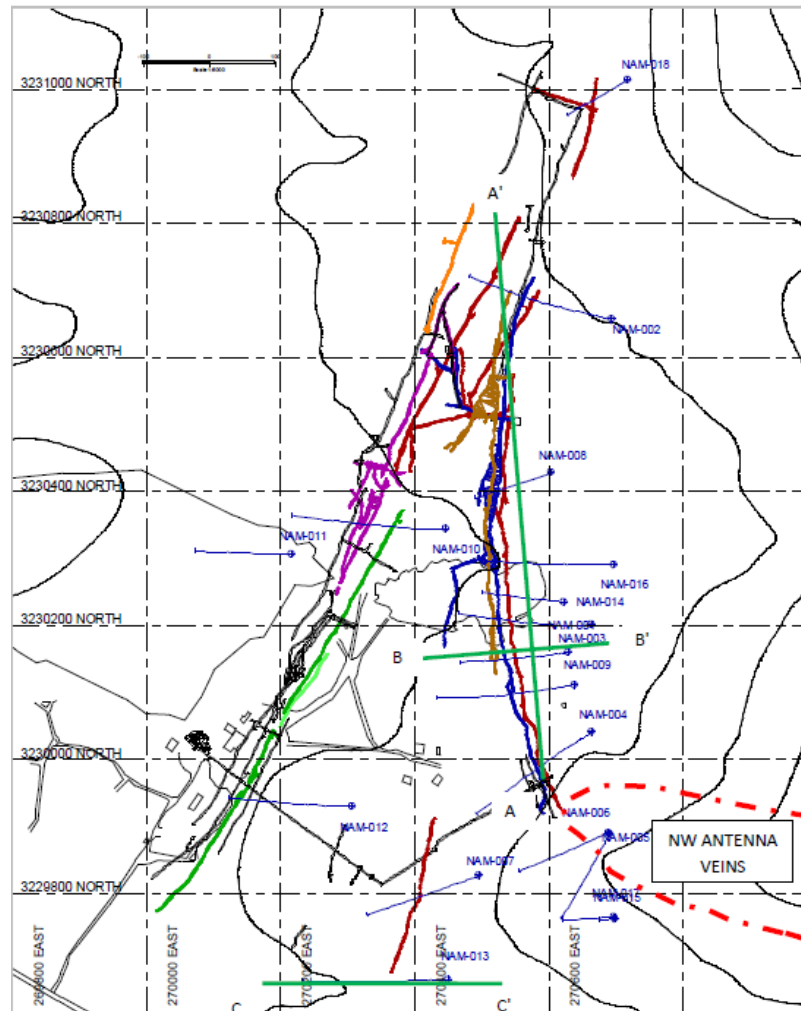


Source: Company reports, reprinted with permission

Nami High Potential Exploration

Recent drilling has been highly successful in hitting known vein extensions and finding new ones. As at mid-November 2011, drilling was at Hole 50 with assays of holes NAM 1-18 released to the market. Subsequently, about half of the assays from holes NAM 19-37 batch have been released to the market. While noting that some of the intercepts recently released on December 12 (holes NAM 19-30 batch) are short, low grade and may be uneconomic to mine, eight of the nine holes hit mineralisation averaging 2.6m of 85g/t Ag, 0.33% Pb, and 0.9% Zn in the Northern vein, 2.5m of 49g/t Ag, 0.85% Pb, and 1.89% Zn in the Mexico vein, and 1.6m of 29g/t Ag, 1.85 Pb, and 4.26% Zn in the Princesa and Megan veins, as detailed in the appendix. It is clear that there are numerous well mineralized veins that need to be drilled in 2012.

Figure 10: Namiquipa Section



Source: Company reports, reprinted with permission

Princesa and Megan Vein: The vein was followed to a depth of 250 metres with 8 holes (NAM 1-4; NAM-8, NAM-9, NAM-14, and NAM-16) intersecting an average core width of 6.7m grading 155 g/t Ag. The drilling also shows that the main vein mineralization mined at the now defunct Venturosa mine, extends along strike and to depth. One rig is currently deployed and focused on defining a resource on the Princesa vein.

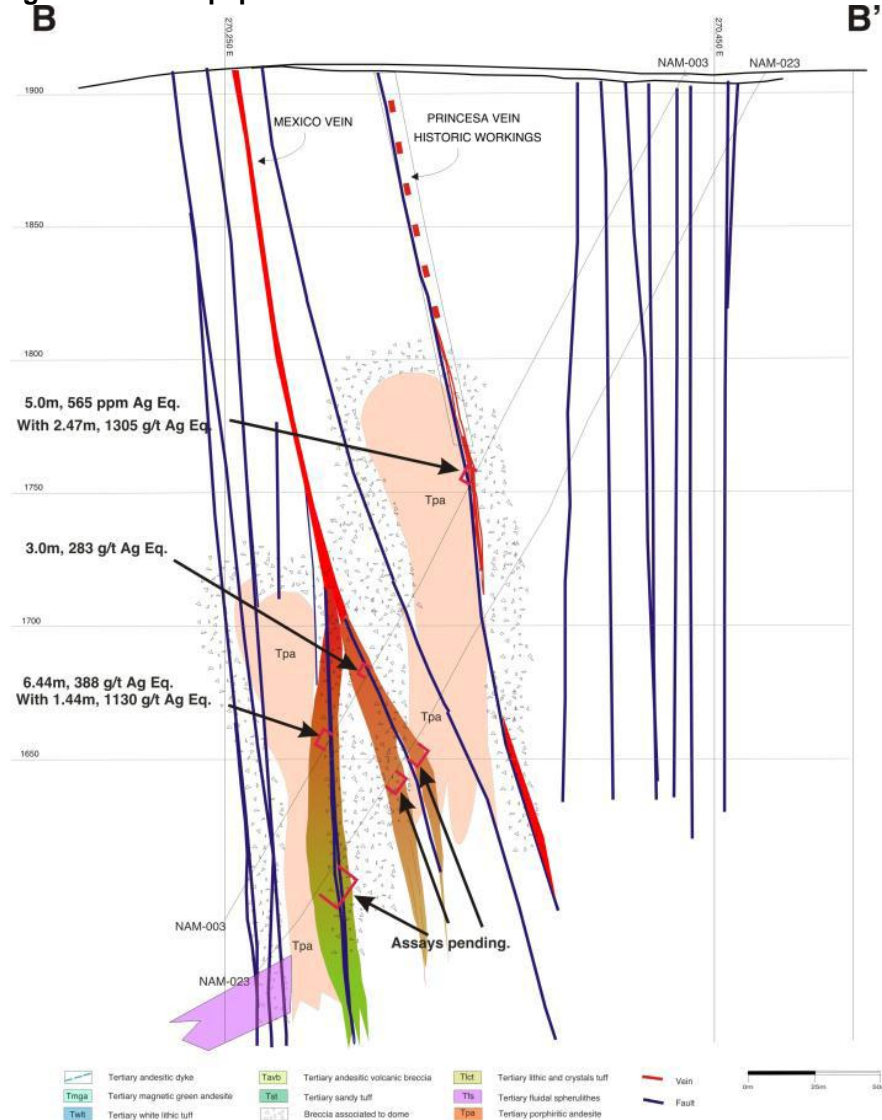
Princesa Vein Extensions: Drill hole NAM-18 was to test the 'northern' extension, approximately 750m north of NAM-001. It intersected an average of 146g/t Ag and 1.3% Pb at shallow depths from 102 to 117m. In addition, the same hole also intersected 115g/t Ag plus 1.7% Pb from 157 to 167m. This step out to the north area coincides with a ground magnetic anomaly detected during the geophysical program and is therefore a high-value target.

Megan Vein: This vein was intersected in the footwall and is semi-parallel to the Princesa vein. The Megan zone consists of broad zones of higher grades of silver and zinc mineralization near the intersection of the projection of the Mexico vein with the Princesa vein (see Figures 3 and 5). The high grade results (Hole NAM-9, 16m at 834g/t Ag) suggest that areas where the veins intersect could be highly lucrative for early mining.

Mexico and Esmeralda Veins: These veins were not mined to the same extent as the America and Princesa vein system. Two holes, NAM-007 and NAM-013, intersected multiple veins of widely varying widths and grades, most of which would be viable to mine.

NW Antenna System: This vein is off to the southeast of the main vein system. Two holes drilled, holes 5 and 6, intersected 8m at 107g/t Ag and 0.6m at 299g/t Ag within a 150m down hole.

Figure 11: Namiquipa Section



Source: Company reports, reprinted with permission

The drilling priority is to infill around holes NAM-3 (Princesa and Megan veins – 5m at 542g/t and 65 m at 33g/t) and drill deeper at holes NAM-8 (Princesa and Megan veins – 0.67m at 174g/t Ag but shallow) and NAM-18 (Princesa vein extension – 15m at 146g/t Ag). The drills on site can reach up to 1,000 feet below surface by stepping down the diameter. An inferred resource is targeted for year-end 2012 with metallurgical test-work to be done through the course of that year.

Namiquipa Model Parameters

As it is still very early and the continuity of the veins is yet to be fully established, we conservatively modeled a conceptual mine with a NAV10% valuation of C\$68mn, with parameters as shown below:

Figure 12: Namiquipa Model Inputs

Nami - SN Model Inputs		Stifel Nicolaus Assumptions
Long-term Silver Price	US\$/oz	\$38
Long-term Lead Price	US\$/lb	\$1.15
Long-term Zinc Price	US\$/lb	\$1.15
Project		Namiquipa
Country		Mexico
Estimate Basis		4Q2011
Commercial Production Start Date		2015
Mineral Reserve & Resources	mmt	-
SN Modeled Reserves (incl. future additions)	mmt	5.0
SN Modeled Silver Grade	g/t	140g/t
SN Modeled Lead Grade	%	1.10%
SN Modeled Zinc Grade	%	2.10%
Throughput - Process Plant	mmtpy	0.36
Mine Production Life	years	15
Average LOM Silver Production	mmoz	1.2
Average LOM Lead Production	mmlbs	3.8
Average LOM Zinc Production	mmlbs	7.8
Cost/t	US\$/t	\$105
Royalties	%	1%
TCRC & Freight	US\$/t Conc.	\$350
Total Cash Costs (2)	US\$/oz Ag	\$25.56
Capex - Plant	US\$mm	\$100

1. Namiquipa, Lead and Zinc total cash costs are \$0.73/lb and \$0.73/lb respectively.
2. All total cash costs(TCC) are co-product and excl. depreciation
3. TCC by-product is \$22/oz Ag

Source: Company reports, Stifel Nicolaus estimates

Given the lack of deeper drilling on the multiple veins and known strike length, the deposit could be significantly larger and could conceptually support a higher throughput. As this deposit is in Mexico, there are several smelters nearby, owned by Grupo, Fresnillo, and Penoles, that could treat the concentrate produced.

Mt. Philip Iron Ore - AUSTRALIA

Cerro Resources owns 100% of the Mt. Philip iron ore project located in Queensland, Australia, 900km from a port, but close to the main rail line from Mt Isa. In October 2011, Cerro reported an initial inferred resource of 25mmt of 36.6% Fe including 12mmt of 47.6% Fe. An updated resource estimate is due in 1Q12. Recent drilling is likely to have increased this by a possible 50%. Preliminary metallurgical studies show the ability to produce a high quality 68% iron product with acceptable silica content using the traditional flotation process.

As the resource is small, we have valued the Mt. Philip project at C\$30mn, approximately \$3 per contained tonne of ore in resource. This appears reasonable after a review of historical transactions.

Figure 13: Mt Philip Iron Ore Resource Statement (October 2011)

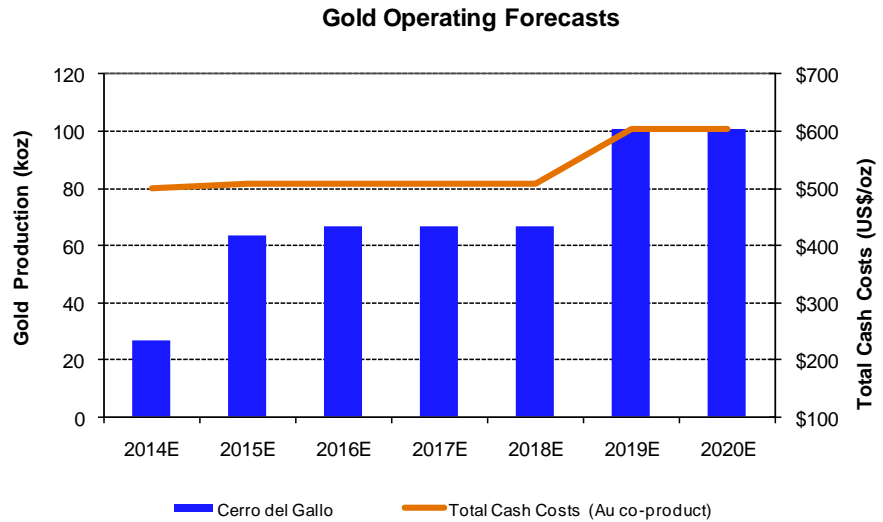
Mt Philip Resource Statement							
	Volume ('000 m ³)	SG (t/m ³)	Tonnes (mm)	Fe (%)	SiO ₂ (%)	P (%)	Al ₂ O ₃ (%)
Haematite Ironstone	3,145	3.85	12.1	47.6	29.1	0.02	0.94
Siliceous Ironstone	4,076	3.27	13.3	26.5	59.8	0.02	1.25
Total			25.4	36.6	45.2	0.02	1.10

(1) Resource Summary for Northern 2.75km

Source: Company reports

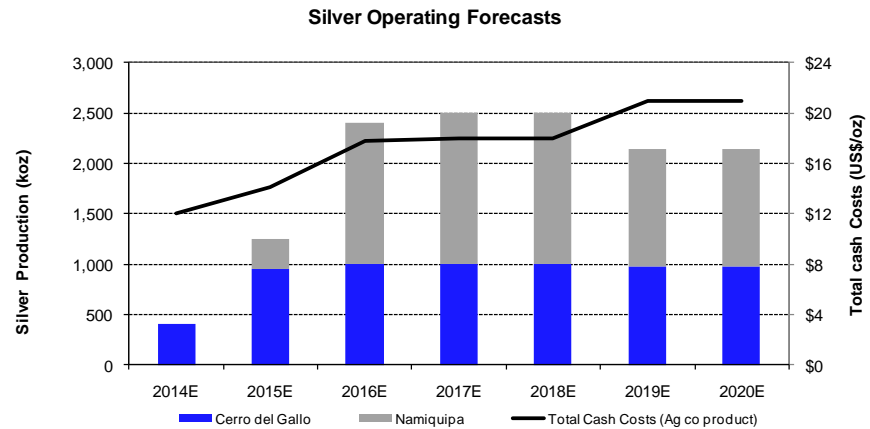
OPERATING FORECASTS SUMMARY

Figure 14: Cerro Resources Gold Operating Forecasts



Source: Stifel/Nicolaus estimates

Figure 15: Cerro Resources Silver Operating Forecasts



Source: Stifel/Nicolaus estimates

VALUATION

Our net asset valuation for Cerro Resources at our target gold price of \$1,600/oz is shown in below.

Figure 16: NAV & NAV Sensitivity Tables

Cerro Resources

Net Asset Valuation (C\$)

Shares (FD, FF, ITM) (mn)	1,467.6						
Market Capitalization (\$mn)	\$132						
			Discount Rate				
	8-10% Risk Adjusted (\$mn)	Per Share	0% Per Share	3% Per Share	5% Per Share	8% Per Share	10% Per Share
Assets							
Cerro del Gallo (100.0%), Mexico	\$332.8	\$0.23	\$0.55	\$0.39	\$0.31	\$0.23	\$0.18
Namiquipa (100.0%), Mexico	\$67.6	\$0.05	\$0.13	\$0.09	\$0.08	\$0.06	\$0.05
Investments	\$32.0	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02
Total Assets	\$432.5	\$0.29	\$0.71	\$0.51	\$0.41	\$0.30	\$0.25
Balance Sheet							
Basic Working Capital	\$18.3	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
Value of ITM Instruments	\$0.0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Estimated Working Capital Additions	\$224.7	\$0.15	\$0.15	\$0.15	\$0.15	\$0.15	\$0.15
Long-term Debt	\$0.0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Estimated Debt Additions	(\$139.9)	-\$0.10	-\$0.10	-\$0.10	-\$0.10	-\$0.10	-\$0.10
Net Debt	\$103.1	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07
Net Asset Value	\$535.5	\$0.36	\$0.78	\$0.58	\$0.48	\$0.37	\$0.32
Share Price		\$0.09	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09
NAV Multiple (P/NAV)		0.25x	0.12x	0.16x	0.19x	0.24x	0.28x
Commodity Prices							
		2012E	2013E	Valuation			
Gold Price (\$/oz)		\$1,800	\$2,000	\$1,600			
Silver Price (\$/oz)		\$39	\$50	\$38			

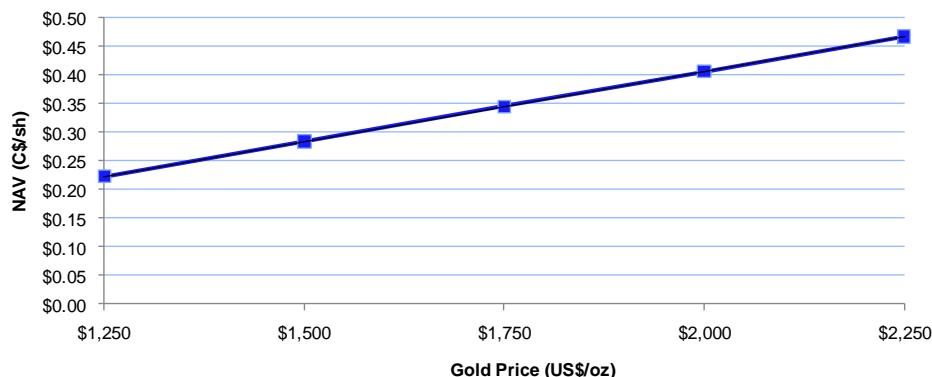
(1) CDG discounted at 8%, Namiquipa discounted at 10%

(2) Working capital and debt additions include SN assumed future equity and debt financings. Current WC is \$17.6mm and debt is nil.

(3) 1.5 billion fully financed, fully financed shares include SN assumed future equity financings. Current fd shares out are ~800mm.

Source: Company data, Stifel Nicolaus estimates

Cerro Resources NAV-8% Sensitivity (C\$/sh)



Source: Stifel Nicolaus estimates

We apply discount rates of 8% for Cerro Del Gallo and 10% for Namiquipa. In general, we apply a discount rate of 3% for producing gold assets, 5% for construction assets, 8% for permitting assets, and 10% for pre-feasibility projects. We anticipate adopting lower discount rates in the future as project milestones are achieved, in particular securing financing and entering initial construction stages.

COMPARISON WITH PEERS

It is difficult to find a company directly comparable to Cerro Resources which starts as a heap leach operation and then adds a CIL plant five years down the line. However, we have compared Cerro with companies operating in Mexico, with somewhat comparable annual gold production. We note that Grayd Resources valuation following the recently announced takeover by Agnico-Eagle provides a positive read through for Cerro Resources — i.e. a potentially higher EV/oz valuation if Cerro receives a takeover offer or as it delivers milestones (FS, debt-financing, permitting, construction, production).

Figure 17: Peer Comp Table (as of December 19, 2011)

	CJO-CA	GYD-CA	AR-CA
	Cerro Resources N.L.	Grayd Resource Corp.	Argonaut Gold Inc.
Share price (C\$)	\$0.09	\$2.39	\$6.44
Main Project	Cerro Del Gallo	La India	El Castillo
Location	Guanajuato, Mexico	Sonora, Mexico	Durango, Mexico
Stage	Exploration	Exploration	Producing
Fully diluted shares (mm)	797.3	98.2	118.1
Debt (\$ mm)	\$0.0	\$0.0	\$6.0
Working capital (\$ mm)	\$17.6	\$4.1	\$54.7
Capex (\$mm)	108.0	72.0	
Process rate (ktpd)	13	16	27
Gold Production (koz)	67	92	72
Silver Production (mmoz)	1.0		
Cost (\$/t) *(4)	\$8.95	\$8.39	\$3.37
Total Cash Cost Au (co-product) *(4)	\$500	\$507	\$528
Reserves and Resources			
Ag mmoz	35.4		15.7
Au mmoz *(1,2,3)	1.7	1.3	6.1
Gold Reserves & Resources (mmoz)	1.7	1.3	6.1
Au eq (mmoz)	2.5	1.3	6.5
Silver Reserves & Resources (mmoz)	35.4	0.0	15.7
Ag eq (mmoz)	105.3	53.3	274.2
Fully diluted market cap (\$ mm)	\$71.8	\$234.6	\$760.5
Fully Diluted EV (incl. Capex) (\$ mm)	\$162.2	\$302.6	\$711.7
FD EV/Au oz	\$98	\$239	\$116
FD EV/Au eq oz	\$65	\$239	\$109

(1) **Cerro Resources** - Cerro Del Gallo hosts all Au and Ag resources. SN operational estimates assume H/L only

(2) **Grayd** - La India hosts ~1.3mmoz Au resources only. We excluded its secondary Delta project resources - 15.4mmt at 0.6% Cu, 1.7% Pb, 3.8% Zn, 62g/t Ag, 1.7g/t Au. Note that Agnico-Eagle is in the process of acquiring Grayd.

(3) **Argonaut** - **El Castillo** hosts ~3.2mmoz Au resources only, the balance Au & Ag are at San Antonio(1.7mmoz Au) and La Colorado (1.1mmoz Au, 15.7mmoz Ag) projects in Mexico. Potential upside from the well advanced **San Antonio** (previously expected to produce 63koz at \$513/oz in 2010 Preliminary Assessment from 1.2mmoz in M&I), as well as **La Colorado** redevelopment with capex of ~\$23-30mm.

(4) **Argonaut** - Cost/t and TCC/oz based on first 9-months of 2011.

(5) **Cerro Resources** - Potential upside from Namiquipa Ag-Pb-Zn project in Mexico. No resource delineated yet but property is highly prospective.

Source: Company reports, Stifel Nicolaus estimates

CONCEPTUAL MODEL

Cerro del Gallo (100%)

CY, Dec. 31	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Reserve Tonnes (mn t)	32.2	32.2	32.2	44.8	40.5	36.0	31.5	57.6
Reserve Grade (Gold g/t)	0.69	0.69	0.69	0.68	0.68	0.68	0.68	0.67
Reserve Grade (Silver g/t)	14.8	14.8	14.8	14.5	14.5	14.5	14.5	14.2
Tonnes Processed (mnt)	0.0	0.0	1.8	4.3	4.5	4.5	4.5	6.5
Gold Grade Mined (g/t)	0.00	0.00	0.69	0.68	0.68	0.68	0.68	0.67
Silver Grade Mined (g/t)	0.00	0.00	7.33	14.52	14.52	14.52	14.52	14.17
Gold Production (koz)	0	0	27	64	67	67	67	101
Silver Production (mmoz)	0.0	0.0	0.4	1.0	1.0	1.0	1.0	1.0
Total Cash Costs- co product (Au \$/oz, excl. depn)	\$0	\$0	\$501	\$507	\$507	\$507	\$507	\$604
Capex (\$mn)	\$3.0	\$35.0	\$85.9	\$2.1	\$2.2	\$37.2	\$72.2	\$3.7

Source: Company data, Stifel Nicolaus estimates

Namiquipa (100%)

CY, Dec. 31	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Reserve Tonnes (mn t)	0.0	5.0	5.0	5.0	4.9	4.6	4.2	3.9
Reserve Grade (Silver g/t)	0	140	140	140	140	137	135	132
Reserve Grade (Lead g/t)	0.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Reserve Grade (Zinc g/t)	0.0%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Tonnes Processed (kt)	0	0	0	72	338	361	361	361
Silver Grade (g/t)	0	0	0	168	168	168	168	132
Silver Production (mmoz)	0.0	0.0	0.0	0.3	1.4	1.5	1.5	1.2
Total Cash Costs- co product (Ag \$/oz, excl. depn)	\$0.00	\$0.00	\$0.00	\$22.20	\$22.20	\$22.20	\$22.20	\$26.78
Capex (\$mn)	\$0.0	\$0.0	\$55.0	\$45.4	\$1.8	\$1.9	\$1.9	\$1.9

(1) SN assumed lead and zinc mined grades are similar to reserve grades

Source: Company data, Stifel Nicolaus estimates

Operating Summary

CY, Dec. 31	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Equity Production								
Total Gold Production	koz	0	0	27	64	67	67	101
Total Silver Production	mmoz	0.0	0.0	0.4	1.3	2.4	2.5	2.1
Total Zinc Production	mibs	0.0	0.0	0.0	1.6	7.5	8.0	8.0
Total Lead Production	mibs	0.0	0.0	0.0	0.8	3.7	3.9	3.9
Total Cash Costs (co-product, excluding depn)								
Total Gold Costs	\$/oz	\$0	\$0	\$501	\$507	\$507	\$507	\$604
Total Silver Costs	\$/oz	\$0.00	\$0.00	\$12.06	\$14.15	\$17.78	\$17.94	\$21.00
Total Zinc Costs	\$/lb	\$0.00	\$0.00	\$0.00	\$0.67	\$0.67	\$0.67	\$0.81
Total Lead Costs	\$/lb	\$0.00	\$0.00	\$0.00	\$0.67	\$0.67	\$0.67	\$0.81
Capex (\$mn)								
Namiquipa (100.0%), Mexico		\$0.0	\$0.0	\$55.0	\$45.4	\$1.8	\$1.9	\$1.9
Cerro del Gallo (100.0%), Mexico		\$3.0	\$35.0	\$85.9	\$2.1	\$2.2	\$37.2	\$72.2
Capex (\$mn)		\$3.0	\$35.0	\$140.9	\$47.5	\$4.0	\$39.2	\$74.2
Operating Margin (%)								
Namiquipa (100.0%), Mexico		0%	0%	0%	45%	45%	45%	34%
Cerro del Gallo (100.0%), Mexico		0%	0%	72%	69%	69%	69%	63%
Operating Margin		0%	0%	72%	67%	61%	61%	56%

Source: Company data, Stifel Nicolaus estimates

Income Statement*(US\$m except per share data)*

CY. Dec. 31	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenue	0.0	0.0	61.2	144.6	199.1	203.2	203.2	241.9
Operating Costs	0.0	0.0	(17.1)	(47.7)	(76.9)	(79.2)	(79.2)	(106.6)
Depreciation	0.0	0.0	(3.8)	(9.0)	(15.0)	(17.3)	(24.7)	(22.3)
G&A, Expl, Other	(9.8)	(10.2)	(11.0)	(14.0)	(14.7)	(14.7)	(14.7)	(22.2)
EBIT	(9.8)	(10.2)	29.3	73.9	92.5	92.0	84.6	90.8
Net Interest	0.6	(2.5)	(5.9)	(9.6)	(9.0)	(7.9)	(7.7)	(7.2)
Pretax Profit	(9.2)	(12.7)	23.4	64.3	83.5	84.0	76.9	83.6
Tax	0.0	0.0	(9.2)	(19.3)	(25.1)	(25.2)	(23.1)	(25.1)
Other	0.0	0.0	(0.9)	(6.9)	(7.3)	(3.8)	(0.6)	(9.1)
Earnings reported	(9.2)	(12.7)	13.3	38.1	51.2	55.0	53.2	49.5
Earnings (Adjusted)	(9.2)	(12.7)	13.3	38.1	51.2	55.0	53.2	49.5
EPS Reported	(0.01)	(0.01)	0.01	0.03	0.04	0.04	0.04	0.03
EPS Adjusted	(0.01)	(0.01)	0.01	0.03	0.04	0.04	0.04	0.03
Gross Operating Margin	0%	0%	72%	67%	61%	61%	61%	56%

Gold price assumptions: 2011 US\$1587/oz, 2012 US\$1800/oz, and Longterm US\$1600/oz

Source: Company data, Stifel Nicolaus estimates

Cash Flow Statement*(US\$m except per share data)*

CY. Dec. 31	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Earnings (adjusted)	(9.2)	(12.7)	13.3	38.1	51.2	55.0	53.2	49.5
Depreciation	0.0	0.0	3.8	9.0	15.0	17.3	24.7	22.3
Other	0.0	0.0	(2.0)	(5.3)	(5.0)	(4.7)	(4.8)	(6.5)
Cash Flow from Operations	(9.2)	(12.7)	15.0	41.8	61.2	67.6	73.1	65.3
Investing Cash Flow	(2.9)	(33.3)	(134.2)	(45.2)	(3.8)	(37.3)	(70.6)	(5.3)
Debt Additions	0.0	75.2	60.0	0.0	0.0	0.0	0.0	0.0
Equity Financing	44.8	0.0	40.0	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	44.8	75.2	100.0	0.0	0.0	0.0	0.0	0.0
Cash Increase	32.8	29.2	(19.2)	(3.5)	57.3	30.3	2.5	59.9
Cash Balance	47.2	76.4	57.2	53.7	111.0	141.3	143.9	203.8
Free Cash Flow	(12.0)	(46.0)	(119.2)	(3.5)	57.3	30.3	2.5	59.9
CFPS (adjusted)	(0.01)	(0.01)	0.01	0.03	0.04	0.05	0.05	0.05

Source: Company data, Stifel Nicolaus estimates

Balance Sheet*(US\$m except per share data)*

CY. Dec. 31	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Current Assets	47.3	76.5	57.4	53.9	111.2	141.5	144.0	204.0
Other Assets	42.7	76.0	206.4	242.7	231.5	251.6	297.5	280.5
Total Assets	90.0	152.5	263.8	296.6	342.7	393.1	441.6	484.5
Current Liabilities	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Long Term Debt	0.0	75.2	75.2	135.2	135.2	135.2	135.2	135.2
Other Liabilities	(0.0)	0.0	58.0	(7.4)	(12.3)	(17.0)	(21.8)	(28.3)
Total Liabilities	1.2	76.4	134.4	129.1	124.1	119.4	114.7	108.1
Shareholder's Equity	88.8	76.1	129.4	167.5	218.7	273.7	326.9	376.4
Shares (End of Period) (mn)	1,104.32	1,104.32	1,421.78	1,421.78	1,421.78	1,421.78	1,421.78	1,421.78
Book Value per Share	0.08	0.07	0.09	0.12	0.15	0.19	0.23	0.26

Source: Company data, Stifel Nicolaus estimates

INVESTMENT RISKS

Risks to our investment thesis and target price are as follows:

Commodity Price Risks: Our valuation of Cerro Resources is dependent primarily on the price of gold and silver. Our outlook for the sector remains positive; however, unforeseen changes would have a material impact on the company's valuation.

Permitting Risks: While permitting the Cerro Del Gallo project is ongoing, it will likely conclude with a positive outcome in 2012, in our opinion. Obtaining proper government permits is a key hurdle for any mining asset. Changes to environmental laws and regulations could also affect the company's operations.

Financial Risks: Future equity financings are necessary. Longer term, market conditions may not allow for easy funding for the construction of Cerro Del Gallo and Namiquipa.

Geological/Technical/Operating Risks: Resource and anticipated additions are estimates based on the best available information. Variances from these estimates, in particular continuity, grades, and recoveries, could negatively impact the valuation of projects. Start-up projects are exposed to the risk of over-expenditure. Our parameter assumptions are subject to significant uncertainty. Operating, geological, or metallurgical parameters may differ from expectations. In the current competitive labor environment, the company remains subject to the same risks as its peers with projects in a similar stage of development, namely wage inflation and a heightened risk of employee turnover.

Country Risks: Cerro Resources main assets are located in Mexico, where the violence associated with drug trafficking remains a concern. Mexico ranks 21st out of 65 countries on the 2009 Global Integrity index, and is ranked 35th in the Fraser Institute Policy Potential Index, which evaluates 79 jurisdictions on the attractiveness of their mining policies.

CAPITAL STRUCTURE

Cerro currently has 749mn shares outstanding and 46mn stock options (average exercise price of A\$0.21/sh.).

Capital Structure

		Number (mm)
Shares Outstanding		748.8
Options Outstanding		45.8
Expiry	Strike (A\$)	Number (mm)
7-Dec-11	\$0.32	2.6
4-Jun-12	\$0.60	0.1
11-Sep-12	\$0.15	4.2
25-Feb-13	\$0.27	5.0
13-May-13	\$0.32	4.3
11-Sep-13	\$0.20	4.2
3-Dec-13	\$0.15	2.1
8-Sep-14	\$0.12	1.3
3-Dec-14	\$0.20	2.1
3-Dec-15	\$0.17	10.0
3-Dec-15	\$0.20	10.0
SN Assumed Shares Issued With Financings		673.0
Year	Amount (US\$m)	Number (mm)
2012	\$44.8	356
2014	\$40.0	317
Total Fully Diluted, Fully Financed shares		1,467.6

Source: Company reports, SN estimates

As of September 30, 2011, the company had A\$15mn in cash on the balance sheet. A 4Q11 exploration budget of \$4.5mn will likely necessitate an equity financing in 2012. For the purposes of our model and valuation, we have assumed \$85mn equity financings at \$0.12/share in 2012 and 2014.

DIRECTORS AND EXECUTIVE MANAGEMENT

(Source: www.cerroresources.com)

Directors and executives of Cerro own approximately 14% of the outstanding shares and 74% of options outstanding.

Directors and Executives Holdings

Name	Position	Shares (mm)	Options (mm)
N.A Seckold	Director/ Chairman	62.5	1.5
R.E Keevers	Director	3.0	1.0
R.M Bell	Director	15.2	1.0
J.F Cook	Director	0.2	4.8
N Tintor	Director	0.2	0.8
A.J McDonald	Director/CEO	13.5	10.0
C.J McPherson	Director/CFO	4.9	2.8
J.A Crombie	Director/Vice Chairman		10.0
J Skeet	COO	3.6	2.0
Total		103.1	33.8
Percent of Outstanding		13.8%	73.7%

Source: Company reports

Norman A Seckold - Non-Executive Chairman: Mr. Seckold graduated with a Bachelor of Economics degree from the University of Sydney in 1970. Mr. Seckold has been Chairman of a number of publicly listed companies including Palmarejo Silver Corporation and Bolnisi Gold NL, which successfully merged with Coeur D'Alene Mines in December 2007. Mr. Seckold was Chairman and Director of San Anton Resource Corporation Inc. from November 2006, which completed a transaction with Cerro Resources NL in September 2010.

James A. Crombie – Executive Vice-Chairman: Mr. Crombie graduated from the Royal School of Mines, London, in 1980 with a B.Sc.(Hons) in Mining Engineering, having been awarded an Anglo American scholarship. He was President and CEO of Palmarejo Silver until the merger with Coeur d'Alene Mines Corporation in December 2007. He was a director of Sherwood Copper Corporation until its business combination with Capstone Mining Corp. in November 2008.

Mr. Crombie is currently a director of Arian Silver Corporation and Torex Gold Resources Inc., CEO and director of Odyssey Resources Limited, President, CEO and a director of: Reunion Gold Corporation, Avala Resources, Sutter Gold Mining Inc., and Dunav Resources Limited.

Anthony J. McDonald – Chief Executive Officer: Mr. McDonald graduated from the Queensland University of Technology, Brisbane, in 1981 with a Bachelor of Laws degree and was admitted as a solicitor in 1982. He has been involved in the natural resources sector in Australia and internationally for many years and in the past 10 years has been actively involved in management in the resources sector. He was a non-executive director of Cerro Resources NL from 1996 to 2001 and an executive director from 2001 until March 2007. He was also a non-executive director of Deep Yellow Ltd. from August 2007 to December 2010.

Mr. McDonald is currently a non-executive director of Industrea Limited (director since November 2007) and Planet Gas Limited (director since November 2003).

Craig J McPherson – Corporate Secretary and CFO: Mr. McPherson graduated with a Bachelor of Commerce degree from the University of

Queensland and is a member of the Institute of Chartered Accountants in Australia. Mr. McPherson has spent in excess of 10 years in senior management positions as a Chartered Accountant. Mr. McPherson was a Director of San Anton Resource Corporation Inc. from September 2009, which completed a transaction with Cerro Resources NL in September 2010. He has been an alternate director for Mr. RM Bell since April 2010.

John S. Skeet – Chief Operating Officer: John Skeet graduated from the University of Ballarat with a Bachelor of Applied Science (Metallurgy) degree in 1986 and has almost 25 years experience in the mining and resources sector. Mr. Skeet initially worked in operations including The Granites, Mt. Leyshon, and Cosmo Howley gold mines before joining Valdora Minerals NL as the Project Manager for the Ballarat East Open Pit Gold Project, then as General Manager for the Australian operations. He was Project Development Manager for Bolnisi Gold NL, developing the gold heap leach operation in the Republic of Georgia and managing the Palmarejo Silver and Gold Project in Mexico, prior to the successful merger with Coeur D'Alene in 2007.

Bill Fleshman – Project Manager, Mexico: Bill Fleshman graduated from Western Washington State University with a Bachelor of Science degree in Geology in 1973. Mr. Fleshman is a geologist with 36 years of continuous experience in the mining industry, managing exploration and development projects in the United States, Australia, Myanmar, Mexico, and Norway. He has previously been involved with five exploration projects that were brought successfully into production.

Trevor Leahey – Project Manager, QLD: Trevor Leahey graduated from Sydney University in 1977 with a Bachelor of Science (Hons) in Applied Geology and Exploration Geophysics. He has worked continuously for 33 years in exploration, project development and mining, both as a geologist and as a mining consultant specializing in data analysis and resource estimation. Mr. Leahey commenced exploration with Cerro Resources in 2005 and has supervised the exploration of the Kalman and Mount Philip projects.

CONCLUSION

Cerro Resources is advancing its flagship Cerro Del Gallo (CGD) gold and silver project in Mexico towards production. The updated BFS is due in 1Q12. Additionally, we highlight the potential exploration upside at CDG which has been underexplored to date. Nami should add exploration excitement through 2012 to the company with potentially a high grade mine in the making. The likely near-term disposal of the non-core Mt. Philip iron ore project, as well as potential streaming the by-product silver production from CDG, may be sources of funding that would significantly offset the heap leach capex required, thereby reducing dilution.

APPENDIX – NAMIQUIPA DRILL RESULTS

Drill Hole	Vein	From (m)	To(m)	Length (m)	Ag (g/t)	Pb (%)	Zn (%)
NAM-001	Princesa & Megan	158.5	165	6.5	56	0.1	0.26
NAM-001	Princesa & Megan	228.76	241	11.05	49	0.88	0.29
NAM-002	Princesa & Megan	194.5	213.82	19.32	30	1.29	3.4
NAM-002	Princesa & Megan	236.5	237.74	1.24	85	5.31	8.61
NAM-003	Princesa & Megan	162	167	5	542	0.047	0.39
NAM-003	Princesa & Megan	259.65	325.35	65.7	33	0.82	2.24
NAM-008	Princesa & Megan	65.38	66.07	0.69	174	0.08	0.03
NAM-008	Princesa & Megan	140.47	140.75	0.28	184	1.27	3.84
NAM-009	Princesa & Megan	93	95	2	75	0.06	0.14
NAM-009	Princesa & Megan	182	185	3	66	0.04	0.07
NAM-009	Princesa & Megan	202	218	16	834	2.29	0.88
NAM-009	Princesa & Megan	224	225	1	92	0.7	6.1
NAM-009	Princesa & Megan	229	231	2	84	0.58	0.77
NAM-009	Princesa & Megan	256	258	2	40	0.23	2.8
NAM-009	Princesa & Megan	377.58	380.17	2.59	11	2.9	1.57
NAM-009	Princesa & Megan	455	456	1	957	0.2	0.22
NAM-014	Princesa & Megan	244.74	250.3	5.56	60	2.12	2.09
NAM-014	Princesa & Megan	273.17	275.25	2.08	42	0.32	1.19
NAM-014	Princesa & Megan	286	289.6	3.6	52	0.32	0.43
NAM-014	Princesa & Megan	307.25	311	3.75	25	1.17	2.94
NAM-014	Princesa & Megan	313	314.6	1.6	68	0.8	5.92
NAM-014	Princesa & Megan	319.7	327	7.3	53	2.03	8.04
NAM-014	Princesa & Megan	332	333.4	1.4	7	0.68	1.52
NAM-014	Princesa & Megan	354.42	361.93	7.51	576	0.51	0.42
NAM-016	Princesa & Megan	266	269	3	217	4.03	3.59
NAM-016	Princesa & Megan	281	283	2	92	0.49	0.15
NAM-016	Princesa & Megan	289	295	6	116	0.2	0.15
NAM-016	Princesa & Megan	299	300.4	1.4	20	1.91	2.14
NAM-016	Princesa & Megan	301	314	13	151	2.18	2.23
NAM-016	Princesa & Megan	325	329	4	154	1.91	7.64
		255.2	261.9	6.7	155	1.17	2.17
	Princesa & Megan			m	Ag (g/t)	Pb (%)	Zn (%)
NAM-018	Princesa Vein Extension	102	117	15	146	1.29	0.1
NAM-018	Princesa Vein Extension	156.6	166.7	10.1	115	1.7	4.04
		129.3	141.9	12.6	134	1.45	1.69
	Princesa Vein Extension			m	Ag (g/t)	Pb (%)	Zn (%)
NAM-004	Princesa & Megan	172	180	8			weakly anomalous
NAM-008	Princesa & Megan	170.69	176.79	6.1			open stope
NAM-012	America	271.27	280.42	9.15			open stope

Source: Company reports, Stifel Nicolaus estimates (averages)

Drill Hole	Vein	From (m)	To(m)	Length (m)	Ag (g/t)	Pb (%)	Zn (%)
NAM-012	America	244	245	1	23	3.35	5.42
NAM-012	America	280.42	285	4.58	20	0.69	1.51
NAM-012	America	318	321	3	27	1.27	2.87
		280.8	283.7	2.9	23	1.20	2.44
	America			m	Ag (g/t)	Pb (%)	Zn (%)
NAM-007	Mexico & Esmeralda	91	100.15	9.15	48	0.09	0.06
NAM-007	Mexico & Esmeralda	112	115.82	3.82	123	0.12	0.05
NAM-007	Mexico & Esmeralda	187	188	1	148	0.07	0.18
NAM-007	Mexico & Esmeralda	193	196	3	148	0.06	0.13
NAM-007	Mexico & Esmeralda	208	209	1	76	0.35	0.05
NAM-007	Mexico & Esmeralda	223	224	1	178	0.07	0.34
NAM-007	Mexico & Esmeralda	246	256	10	69	0.14	0.25
NAM-007	Mexico & Esmeralda	313	319.8	6.8	71	3.05	1.88
NAM-013	Mexico & Esmeralda	118.87	122.16	3.29	268	0.23	0.11
NAM-013	Mexico & Esmeralda	134	135	1	93	0.1	0.52
NAM-013	Mexico & Esmeralda	184	192	8	41	0.14	0.26
NAM-013	Mexico & Esmeralda	195	196	1	91	0.25	0.05
NAM-013	Mexico & Esmeralda	223	224	1	23	0.64	1.8
NAM-013	Mexico & Esmeralda	238	243.15	5.15	23	0.81	2.3
NAM-013	Mexico & Esmeralda	247.75	248.55	0.8	34	0.77	1.62
NAM-013	Mexico & Esmeralda	249.45	249.8	0.35	79	0.62	1.33
NAM-013	Mexico & Esmeralda	259	264	5	268	0.17	0.24
NAM-013	Mexico & Esmeralda	346.67	352.5	5.83	186	1.08	2.81
		209.4	213.1	3.7	103	0.58	0.79
	Mexico & Esmeralda			m	Ag (g/t)	Pb (%)	Zn (%)
NAM-005	NW Antenna	149	157	8	107	0.07	0.16
NAM-005	NW Antenna	177	190	13	65	0.04	0.14
NAM-005	NW Antenna	195	204	9	66	0.06	0.09
NMA-006	NW Antenna	126	126.6	0.6	299	0.24	0.18
NAM-006	NW Antenna	129	131	2	149	0.02	0.03
		155.2	161.7	6.5	85	0.06	0.13
	NW Antenna			m	Ag (g/t)	Pb (%)	Zn (%)

Source: Company reports, Stifel Nicolaus estimates (averages)

Drill Hole	Vein	From (m)	To(m)	Length (m)	Ag (g/t)	Pb (%)	Zn (%)
NAM-020	Northern	135	145	10	106	0.276	0.22
NAM-020	Northern	152	153	1	13	0.17	1.29
NAM-020	Northern	162	163	1	408	0.89	2.94
NAM-020	Northern	172	173	1	75	0.03	0.25
NAM-020	Northern	188	190	2	24	0.42	1.56
NAM-020	Northern	195	196	1	15	0.21	3.08
NAM-020	Northern	203	207.1	4.1	34	0.48	1.12
NAM-020	Northern	214	215	1	45	0.15	1.62
NAM-027	Northern						
		177.6	180.3	2.6	85	0.33	0.90
	Northern			m	Ag (g/t)	Pb (%)	Zn (%)
NAM-019	Mexico	209	211	2	88	0.05	0.04
NAM-019	Mexico	238.2	239.04	0.84	64	3.31	8.73
NAM-021	Mexico	47	48	1	46	0.12	0.22
NAM-021	Mexico	129	133	4	51	0.04	0.01
NAM-021	Mexico	140.3	140.52	0.22	111	0.09	0.04
NAM-021	Mexico	145	145.95	0.95	96	0.05	0.33
NAM-021	Mexico	204	205	1	221	0.02	0.18
NAM-026	Mexico	323	324	1	8	2.29	1.55
NAM-026	Mexico	444	457	13	43	0.59	1.54
NAM-030	Mexico	266	267.5	1.5	19	0.57	3.86
NAM-030	Mexico	371.55	379.37	8.72	12.5	1.34	1.23
NAM-030	Mexico	494	495	1	73	5.3	13
NAM-030	Mexico	504	505	1	42	0.3	2.19
NAM-030	Mexico	514	515.4	1.4	27	0.74	7.69
NAM-030	Mexico	542.54	543.1	0.56	325	0.08	0.07
		304.8	307.3	2.5	49	0.85	1.89
	Mexico			m	Ag (g/t)	Pb (%)	Zn (%)
NAM-023	Princesa & Megan	301.75	315.7	13.95	22.4	1.23	2.34
NAM-023	Princesa & Megan	366.7	367.35	0.65	28	4.5	2.79
NAM-023	Princesa & Megan	370.7	371.7	1	22	2.07	0.54
NAM-023	Princesa & Megan	373	374.5	1.5	117	10.15	8.99
NAM-023	Princesa & Megan	380.5	382	1.5	8	0.6	0.89
NAM-023	Princesa & Megan	382	382.5	0.5	96	5.15	24.4
NAM-023	Princesa & Megan	382.5	383.75	1.25	63	4.88	15.9
NAM-023	Princesa & Megan	383.75	385.25	1.5	8	1.38	1.86
NAM-023	Princesa & Megan	385.25	386.75	1.5	11	1.19	2.33
NAM-023	Princesa & Megan	386.75	388.25	1.5	9	0.94	2.48
NAM-023	Princesa & Megan	391.5	393	1.5	7	1.17	1.81
NAM-023	Princesa & Megan	415.7	416.75	1.05	33	4.15	9.66
NAM-024	Princesa & Megan	282	283	1	12	0.37	4.12
NAM-024	Princesa & Megan	329	330.05	1.05	9	0.72	2.55
NAM-024	Princesa & Megan	349	350	1	7	0.46	1.37
NAM-024	Princesa & Megan	355.5	356.8	1.3	112	2.76	10.55
NAM-024	Princesa & Megan	405	405.43	0.43	11	2.57	2.11
NAM-029	Princesa & Megan	188.75	189.35	0.6	54	2.48	6.05
NAM-029	Princesa & Megan	200	200.7	0.7	196	3.26	13.05
NAM-029	Princesa & Megan	276.83	278	1.17	8	0.24	3.17
NAM-029	Princesa & Megan	278	279.58	1.58	28	2.48	6.74
NAM-029	Princesa & Megan	288	289	1	5	0.41	2.58
NAM-029	Princesa & Megan	289	290	1	5	0.51	2.84
NAM-029	Princesa & Megan	291.25	292.5	1.25	18	0.83	8.37
NAM-029	Princesa & Megan	294	295	1	5	0.45	1.7
		333.9	335.5	1.6	29	1.85	4.26
	Princesa & Megan			m	Ag (g/t)	Pb (%)	Zn (%)

Source: Company reports, Stifel Nicolaus estimates (averages)

Target Price Methodology/Risks

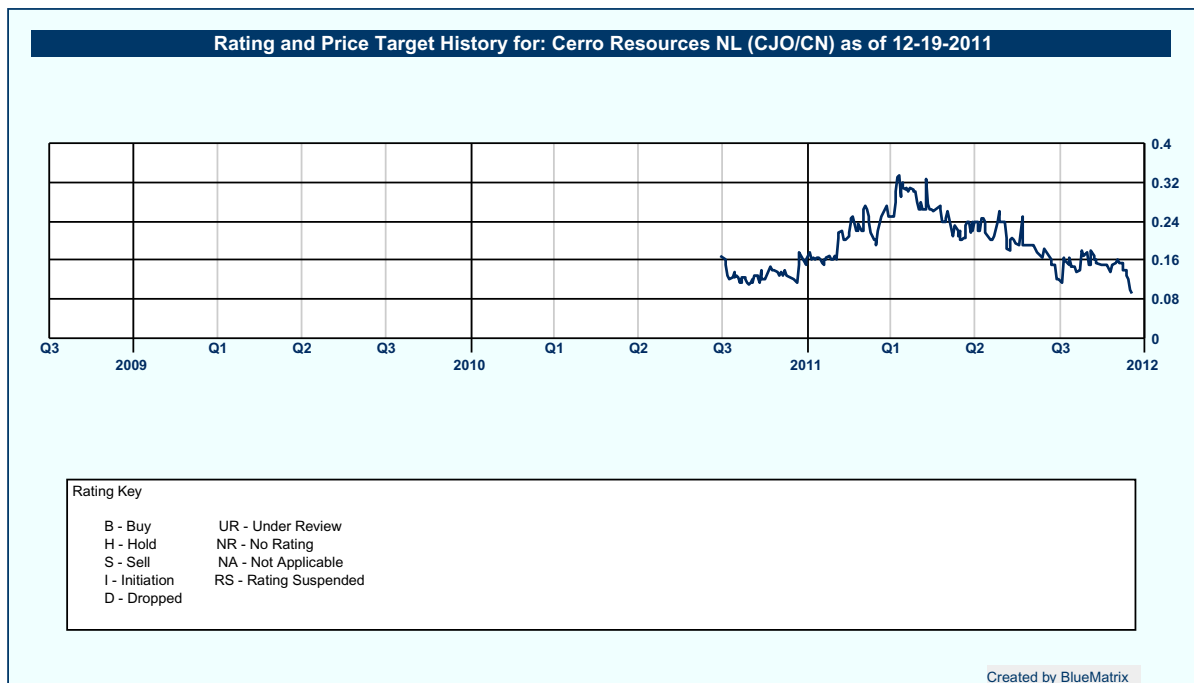
Our 12-month target price of C\$0.30 is based on a P/NAV multiple of 0.8x. Risks to our target price include changes in the price of gold and silver, funding risks, technical risks, and political risks.

Company Description

Cerro Resources is an Australian-based gold/silver and metals development and exploration company. Its primary asset is the San Anton gold/silver project (which hosts the Cerro Del Gallo deposit) located in the central state of Guanajuato, Mexico. Other assets include: the Namiquipa deposit in northern Mexico, an early stage but highly promising silver-lead-zinc deposit currently being explored; Espiritu Santo, a recently acquired bulk tonnage target; and the non-core Mt Phillip iron ore deposit in Australia.

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